

## Message Text

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PAGE 01 STATE 058729

62

ORIGIN SS-25

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DRAFTED BY EB/ ORF/ FSE/ WRWHITMAN: ABH

20681 3/29/73

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FM SECSTATE WASHDC

TO AMEMBASSY CARACAS IMMEDIATE

C O N F I D E N T I A L STATE 058729

EXDIS

E. O. 11652 GDS

TAGS: ENRG VE

SUBJECT: NEW OIL IMPORT REGULATIONS

1. DEPARTMENT HAS JUST RECEIVED AGENDA FOR MARCH 30 MEETING OF OIL POLICY COMMITTEE ( OPC) WORKING GROUP INCLUDING DISCUSSION OF QUOTE OIL IMPORT POLICY ACTION PLAN UNQUOTE. FOLLOWING IS SUMMARY OF MOST IMPORTANT FEATURES OF PROPOSED RPT PROPOSED NEW OIL IMPORT POLICY: ( A) STARTING MAY 1, 1973, IMPORT ALLOCATIONS TO BE FIXED AT JANUARY 1, 1973, LEVEL FOR THE NEXT FIVE YEARS. RESID IMPORTS AUTHORIZED AS OF THAT DATE WILL ALSO BE FIXED FOR SAME FIVE YEAR PERIOD. BEGINNING IN 1978 THESE ALLOCATIONS WOULD BE PHASED OUT IN THE SUCCEEDING FIVE YEARS IN FIVE EQUAL STEPS. THESE IMPORT TICKETS WILL BE ALLOCATED TO PROGRAM PARTICIPANTS FREE OF LICENSE FEE DURING TEN YEAR PERIOD. ( B) EFFECTIVE MAY 1, 1973, IMPORTS ABOVE JANUARY 1, 1973 LEVELS WILL BE ALLOWED WITHOUT RESTRICTION PROVIDED THAT EVERY PROSPECTIVE IMPORTER APPLIES TO INTERIOR FOR AN IMPORT LICENSE AND PAYS QUOTE LICENSE FEE UNQUOTE OF 1 CENT PER GALLON ON CRUDE OIL, RESID, AND GASOLINE AND 2 CENTS PER GALLON ON UNFINISHED OIL AND ALL OTHER FINISHED PRODUCTS. ALL CURRENT IMPORT DUTIES WOULD

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PAGE 02 STATE 058729

REMAIN IN FORCE AND WOULD BE PAYABLE IN ADDITION TO  
LICENSE FEE.

(C) FOLLOWING PRODUCTS WOULD BE EXEMPTED FROM LICENSE  
FEE CHARGES; NGL, ASPHALT, PETROCHEMICAL FEEDSTOCKS,  
ETHANE, PROPANE, BUTANE, SNG FEEDSTOCKS EXEMPT FOR 3 YEARS  
BEGINNING MAY 1, 1973. (D) ASIDE FROM THOSE USING  
IMPORT ALLOCATIONS AT JANUARY 1, 1973 LEVELS, FOLLOWING  
IMPORTERS WILL BE GRANTED EXEMPTION FROM LICENSE FEES:  
MID CONTINENT TERMINAL OPERATORS (50,000 B/D), DEEPWATER  
TERMINAL OPERATORS IN DISTRICTS I AND V (100,000 B/D),  
NEW REFINERIES AND EXPANSIONS OF EXISTING REFINERIES.

2. ON INTERNATIONAL SIDE FOLLOWING ARE KEY PROPOSALS:  
QUOTE (A) IMPORT TICKETS FOR CRUDE OIL PRODUCED IN  
CONTIGUOUS COUNTRIES (I.E., CANADA AND MEXICO) WILL BE  
EXEMPT FROM LICENSE FEE CHARGES SO LONG AS NEITHER OF  
THESE COUNTRIES IMPOSES AN EXPORT TAX OR ITS EQUIVALENT  
ON U. S. IMPORTS OF OIL. IMPORTS OF CANADIAN CRUDE OIL  
WILL BE DISTRIBUTED TO U. S. REFINERIES ON A HISTORICAL  
BASIS AND/OR ON THE BASIS OF INPUT REQUIREMENTS FOR  
INDIVIDUAL FACILITIES. CONTINUED EXEMPTION OF CANADIAN  
IMPORTS FROM LICENSE FEES WILL BE SUBJECT TO NEGOTIATIONS  
BETWEEN CANADA AND THE UNITED STATES AND TO CANADIAN  
ADHERENCE TO ANY AGREEMENTS SIGNED WITH THE UNITED STATES.  
THE STATE DEPARTMENT WOULD ADVISE THE OPC OF ANY OTHER  
CHANGES IN LICENSE FEES ON CANADIAN OR MEXICAN IMPORTS  
WHICH IT DEEMS TO BE IN THE INTERESTS OF U. S. FOREIGN  
POLICY. (B) FINISHED PRODUCTS MANUFACTURED IN CANADA  
FROM CANADIAN CRUDES IMPORTED UNDER LONG TERM CONTRACT  
WILL ALSO BE EXEMPT FROM LICENSE FEES, SUBJECT TO THE  
SAME PROVISIONS INDICATED UNDER SECTION NO. 15. (C) THE  
LICENSE FEE ON IMPORTS OF CRUDE OIL PRODUCED IN WESTERN  
HEMISPHERE COUNTRIES OTHER THAN CANADA AND MEXICO WILL BE  
SUBJECT TO NEGOTIATIONS AND CONTINUED ADHERENCE BY THESE  
COUNTRIES TO ANY AGREEMENTS WITH THE UNITED STATES. ALL  
OTHER WESTERN HEMISPHERE PREFERENCES WILL END. AGAIN,  
THE STATE DEPARTMENT WILL ADVISE THE OPC OF ANY CHANGES  
IN LICENSE FEES ON WESTERN HEMISPHERE IMPORTS WHICH IT  
DEEMS TO BE IN THE INTERESTS OF U. S. FOREIGN POLICY.  
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PAGE 03 STATE 058729

(D) TO INTEGRATE THE PUERTO RICAN PROGRAM MORE FULLY

INTO THE U. S. PROGRAM, IMPORTS OF CRUDE OIL AND FINISHED PRODUCTS INTO PUERTO RICO WILL BE SUBJECT TO THE SAME LICENSE FEES AS THE MAINLAND AND WILL BE ALLOWED FROM ANYWHERE IN THE WORLD. END QUOTE

COMMENT

3. WE HAVE NOT YET DECIDED WHAT POSITION WE WILL ADOPT AT MEETING. HOWEVER ONE OPTION WOULD BE ELIMINATION OF ALL LICENSE FEE EXEMPTIONS, THUS GIVING VENEZUELA, CANADA, AND MEXICO EQUAL TREATMENT AND SHOWING USG DESIRE TO ELIMINATE ALL SPECIAL COUNTRY ARRANGEMENTS. THIS APPROACH COULD HOWEVER RAISE SERIOUS PROBLEMS WITH US IN OUR RELATIONS WITH CANADA, AND MORE REFLECTION WILL THEREFORE BE REQUIRED. ANOTHER OPTION WOULD BE CONTINUING FORMER 50 MBD QUOTA FOR NO. 2 OIL, THUS MAKING THESE IMPORTS FREE OF LICENSE FEE. THIS COULD BE COUPLED WITH INCLUSION OF SPECIAL WESTERN HEMISPHERE PREFERENCE FOR NON- CONVENTIONAL OILS. YOU SHOULD HOWEVER BE AWARE THAT OUR RECENT EFFORTS TO ESTABLISH OR RETAIN ANY KIND OF PREFERENCE FOR VENEZUELA HAVE BEEN FRUITLESS AND STATE, AS ONLY PROPONENT THIS POLICY, HAS BEEN UNANIMOUSLY OUTVOTED ON GROUND THAT A GENERAL WESTERN HEMISPHERE PREFERENCE REPRESENTS A COMPLICATION OF OUR IMPORT SYSTEM WHICH IS NOT NOW JUSTIFIED BY SECURITY CONSIDERATIONS. IMPORTANT BILATERAL POLITICAL CONSIDERATIONS THAT WE HAVE POINTED OUT TO THE WORKING GROUP ALSO SEEM TO HAVE HAD NO IMPACT ON OTHER AGENCIES.

4. WE ALSO HAVE PROBLEM WITH PARTS OF PARA 2 WHICH REFER TO NEGOTIATION OF FEE EXEMPTIONS. ASIDE FROM ITS UNSUBTLE AND ABRASIVE TONE, THIS LANGUAGE COULD BE CONSTRUED BY OTHER MAJOR CONSUMING COUNTRIES AS A DECISION BY USG TO FOLLOW BILATERAL ROAD RATHER THAN SEEKING MULTILATERAL, COOPERATIVE ARRANGEMENTS TO DEAL WITH ENERGY PROBLEMS.

5. EMBASSY' S COMMENTS WOULD BE GREATLY APPRECIATED ON URGENT BASIS, AND WOULD BE ESPECIALLY USEFUL IF  
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PAGE 04 STATE 058729

RECEIVED HERE BEFORE 1330 OUR TIME MARCH 30. ROGERS

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\*\*\* Current Classification \*\*\* CONFIDENTIAL

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